AR79

INTERIM REPORT

OCTOBER 31st - 1976

CANADIAN EXPORT GAS & OIL LTD.

CEGO

TO THE SHAREHOLDERS:

Financial

The Company's gross income for the six months ended October 31, 1976 increased 30% to \$4,770,000. Working capital provided from operations was up 41% to \$3,347,000. Net earnings were \$2,306,000 (28¢ per share) compared to \$1,530,000 (19¢ per share) in the same period last year.

Net earnings for the current quarter were 4¢ per share lower than those for the first quarter ended July 31, 1976. This was essentially due to the charge for dry holes and abandoned properties of \$520,000, six times greater than the charge in the first quarter. Over 80% of this write-off resulted from the surrender of the Company's East Coast acreage.

Production and Development

Gross oil and natural gas liquid production was 303,974 barrels for the six months ended October 31, 1976 compared to 349,909 barrels for the corresponding period of 1975. Gross gas production was 4.295 billion cubic feet for the report period compared to 4.731 billion cubic feet in 1975. The hydrocarbon production decline was primarily due to the reduction of oil and gas exports to the United States. Since entering a new gas purchase contract year commencing November 1, 1976 it is expected that gas sales will increase for the next six months. Also effective January 1, 1977 gas sales price will be increased 10 cents per MCF and oil price increased \$0.70 per barrel.

A total of three development wells was drilled during the second quarter and resulted in a gas well, oil well and a dry hole.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six Months Ended October 31 1976	1975
SOURCE OF WORKING CAPITAL:		
Net earnings	$ 2,306,000	$ 1,530,000
Add charges against earnings not requiring a current outlay of working capital:		
Deferred income taxes	(68,000)	84,000
Depletion and depreciation	503,000	388,000
Dry holes and abandoned properties	606,000	370,000
WORKING CAPITAL PROVIDED FROM OPERATIONS	3,347,000	2,372,000
Refund of North Sea drilling costs	900,000	—
Proceeds from sale of property	525,000	—
Proceeds from sale of capital stock	20,000	—
TOTAL WORKING CAPITAL PROVIDED	4,792,000	2,372,000
DISPOSITION OF WORKING CAPITAL:		
Exploration:		
Land acquisition and exploration surveys	529,000	433,000
Wildcat and stepout drilling	99,000	524,000
Increase (Decrease) in work obligation deposits	(118,000)	20,000
Development:		
Drilling and equipment of wells	919,000	918,000
Gas gathering systems, plants and miscellaneous, net	245,000	446,000
Dividends paid	408,000	—
WORKING CAPITAL USED	2,082,000	2,341,000
INCREASE IN WORKING CAPITAL	2,710,000	31,000
Working capital at beginning of period	1,503,000	770,000
WORKING CAPITAL AT END OF PERIOD	$ 4,213,000	$ 801,000

The above statement has not been audited and is subject to year end adjustment.

OIL AND NATURAL GAS LIQUIDS AND GAS PRODUCTION

(Gross)

	Six Months Ended October 31 1976	1975
Oil and Natural Gas Liquids - Barrels . . .	303,974	349,909
Average per day - Barrels .	1,652	1,902
Gas Sales - MMCF . . .	4,295	4,731
Average per day - MMCF .	23	26

Exploration - Domestic

In the Hutton area of Southern Alberta a three well exploration program has been completed on lease blocks comprising approximately 19,200 acres. Two were cased as potential Medicine Hat gas wells, while completion of PCP Connorsville 6-12-25-16W4 is currently underway (CEGO 17½%).

In the Strachan Field, Gulf et al Strachan 11-27-37-9W5 is being completed as an Elkton gas discovery at total depth of 10,850'. On drill stem test the well flowed gas at 7 MMcfd (CEGO 6¼%).

At Ricinus a new pool wildcat, Gulf et al West Ricinus 7-1-37-10W5, was drilling at 4567' at the end of our second quarter. This well will test the northwest extension of the Ricinus Cardium oil pool located in Twp. 36, Rges. 8 and 9, W5M and will evaluate a 4160 acre lease block (CEGO 6¼%).

Your company has also participated in the purchase of four petroleum and Natural Gas Exploratory Licences in Alberta. In August, CEGO acquired a 37½% interest in a 4200-acre Exploratory Licence at Marten Hills, an offset to our Natural Gas Licence No. 333, and participated at a 25% interest in the purchase of a 13,600 acre Licence at Grande Prairie. During September interests were purchased in a 12,640 acre Licence at Buck Lake (CEGO 50%) and in an 8,800 acre block at Goose Lake (CEGO 33⅓%). Two of these Licences, Marten Hills and Goose Lake, will be drilled this winter and a seismic program will be run at Grande Prairie.

In British Columbia CEGO increased its interest at East Sahtaneh by participating at a 25% interest in the purchase of a 17,073 acre permit adjacent to our currently-held block. A seismic program will be undertaken on both blocks this winter.

In the Beaufort Sea the locations of two recent Dome wells relative to the company's acreage were shown on a map included in the Interim Report of July 31. The Tingmiark test, 14 miles southwest of CEGO's central block of permits, has been suspended for the winter at 10,010' after encountering a gas-bearing zone. It is anticipated that this well will be deepened next summer. The Kopanoar well between the central and western blocks of our Company's acreage has been abandoned after collapse of surface casing. Four additional locations west, northwest and north of the central block have been announced for drilling next summer.

Exploration - Foreign

CEGO completed an agreement with BP Petroleum Development Ltd. whereby CEGO will assign 37½ percent of its 10 percent interest in North Sea Licence P.244, which includes Block 21/2, 29/6 and 29/27. In return, BP will furnish CEGO's share of the funds necessary to drill and complete North Sea 21/2-3 as well as the next well to be drilled on the same geological feature. Also, BP will reimburse CEGO for one half of its prior expenditures on Licence P.244, amounting to approximately $900,000.

Also under the agreement, BP will continue to furnish CEGO's share of the total funds required

LTD.

CONDENSED STATEMENT OF EARNINGS

	Quarter Ended October 31 1976	Quarter Ended October 31 1975	Six Months Ended October 31 1976	Six Months Ended October 31 1975
Oil, gas and sulphur sales, less royalties	$2,382,000	$2,042,000	$4,770,000	$3,661,000
Royalty income	81,000	60,000	147,000	114,000
GROSS INCOME	2,463,000	2,102,000	4,917,000	3,775,000
Production, administrative and general expenses	407,000	352,000	798,000	708,000
OPERATING INCOME	2,056,000	1,750,000	4,119,000	3,067,000
Dry holes and abandoned properties	520,000	322,000	606,000	370,000
Acreage rentals and miscellaneous, net	72,000	69,000	120,000	134,000
Provision for depletion and depreciation	254,000	199,000	503,000	388,000
	846,000	590,000	1,229,000	892,000
EARNINGS BEFORE INCOME TAXES	1,210,000	1,160,000	2,890,000	2,175,000
Income Taxes:				
Current	327,000	312,000	652,000	561,000
Deferred	(98,000)	52,000	(68,000)	84,000
	229,000	364,000	584,000	645,000
NET EARNINGS	$ 981,000	$ 796,000	$2,306,000	$1,530,000
Net earnings per share	12¢	10¢	28¢	19¢

The above statement has not been audited and is subject to year end adjustment.

CONDENSED CONSOLIDATED BALANCE SHEET

	October 31 1976	October 31 1975
ASSETS		
Cash, deposit receipts and marketable securities	$ 1,981,000	$ 303,000
Accounts receivable	4,057,000	2,822,000
Total current assets	6,038,000	3,125,000
Refundable deposits and investments	300,000	435,000
Property, plant and equipment, net	18,916,000	18,298,000
	$25,254,000	$21,858,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 1,773,000	$ 2,126,000
Income taxes payable	52,000	198,000
Total current liabilities	1,825,000	2,324,000
Deferred income taxes	3,470,000	3,614,000
Shareholders' equity	19,959,000	15,920,000
	$25,254,000	$21,858,000

The above balance sheet has not been audited and is subject to year end adjustment.

for all subsequent wildcat and/or delineation wells and will retain its assigned interest (3¾%) unless it elects not to participate. If BP makes that election, its interest in that geological feature will revert to CEGO.

CEGO further agreed to finalize terms by which BP can increase its participation by a further 1¼ percent if BP furnishes all of CEGO's development costs on each feature for which a development plan is approved by the U.K. Department of Energy. BP agreed to reimburse CEGO for its remaining one half of previous expenditures on the licenced area upon approval of the first development plan. All drilling and development expenditures advanced by BP to cover CEGO's share of these costs will be recovered by BP out of 80 percent of CEGO's share of the production.

North Sea 21/2-3, the third well drilled on Block 21/2 in the United Kingdom sector, tested oil at non-commercial rates from a zone not productive in the first two wells. The third well was located approximately 1.6 miles from the first well (21/2-1) drilled on the block which flowed oil at the rate of 5,540 barrels of oil per day, and 2.2 miles from the second well (21/2-2) which flowed gas at the rate of 18.5 million cubic feet per day with 1,900 barrels of condensate. Additional drilling will be required to determine the commercial significance of Block 21/2.

Studies of the Brunei exploration work have suggested an area of possible potential. Our group is endeavouring to find assistance leading towards the drilling of a well.

The seismic surveys on the Kenya property failed to indicate a drillable prospect and the farmee has elected not to proceed with drilling a well. Unless other parties can be interested in further work on this acreage, the project will be terminated.

General

Each registered shareholder has been mailed an Offer to Purchase CEGO shares from Home Oil Company Limited, dated November 12, 1976 and by Canex Placer Limited, dated November 29, 1976. The Placer offer is the higher at $6.15 (Canadian) per share. Also, I mailed a letter to shareholders dated November 18, 1976, advising of the situation as of that date.

I will attempt to keep you advised of any developments with respect to these offers. However, announcements may have to be made by press release as the time required to reach each shareholder by mail may result in the information being received too late to be of assistance. In these circumstances, I would suggest that all shareholders consult a registered brokerage firm prior to tendering their shares in order to ensure that they are advised of up-to-date information.

Paul C. Evans
President and
Chief Executive Officer

December 1, 1976

PRINTED IN CANADA